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SHIPPING FALLACIES

A person interested in ocean shipping from reasons other than the ownership of a few shares of the aqueous common stock of the International Mercantile Marine purchased at 51 $\frac{7}{8}$, has inevitably to rely on his own resources and must consequently often be at a loss. The American books on shipping can be numbered almost on the fingers of a one-handed man, and in none of them can an inquirer find answers to relevant and irrelevant questions which bother him: Why do some countries have large merchant fleets and others practically none? Why has the subsidization policy of Japan apparently succeeded and that of France failed? Why can Greeks buy eight-hand ships and make money with them while Americans cannot earn profits with the most modern types? Why have we had in this country an endless procession of marine leagues, national merchant marine associations, and the like? By what processes do so many ships, famous in the trans-Atlantic traffic, degenerate into steerage boats in the Near East trade and end their one-score years and ten among the odorous junks of the China Sea? Surely not unanswerable questions or lacking in appeal to the imagination.

Yet not only are the serious books on the subject unsatisfying to one afflicted mildly with intellectual curiosity (the authors confess that they are serious in their prefaces: one hopes that his book will be "conducive of proper action by Congress on the vital subject of an American marine"; another feels modestly "the need of a book dealing systematically and comprehensively with the whole subject of ocean transportation"; and a third admits that his "contribution" has on it "the stamp of individuality") but the speeches of the leaders in maritime affairs and the editorials in the native shipping journals are but slightly informative and are usually unsound. Being less acquainted with other fields of economic endeavor, I can state that to the

best of my knowledge there is no other in which such childish fallacies are mouthed continuously and in the end believed fanatically. Four of these popular opinions will be given a critical scrutiny: (1) The time-has-now-come fallacy; (2) the balanced-fleet argument from false analogy; (3) the delivery-wagon figure of speech; and (4) a defense of subsidizing tramp shipping by the *non-sequitur* reference to Japan.

To avoid an undue emphasis of the importance of the subject, every discussion of shipping should have in it somewhere the tonic statement of Salter:

Merchant shipping has throughout history occupied both in the public mind and in the economic system of the world a place altogether out of proportion to either the human effort or the capital which it represents. The ordinary citizen of any civilized town enjoys in his daily life the products of every quarter of the globe. The very fabric of modern life is built upon the interchange of the goods of widely sundered nations. But the steamships by which the communications of the world are maintained and its products and manufactures exchanged have never exceeded in number some 8,000. Those employed in manning them amounted to some 450,000, and those in building them to perhaps another 250,000—small numbers compared with the 8,000,000 persons occupied in agriculture in a single country such as France. The total value of all the ocean-going ships in the world before the war was not more than some £300,000,000; that is, less than the capital invested in two English railway companies. The total amount of steel sunk in ships lost during the war was only some 5,000,000 tons; that is, not more than 12 per cent of the steel production of America alone in a single year.¹

At the other extreme is the declaration of Chairman Lasker:

As important as the railroads were in the wresting of the empire, so now, in the cycle of events, transportation on the sea becomes a paramount issue of the day, unless American statesmanship is bankrupt and American vision blind. Shall we, standing in our own light, surrender to others the wealth of opportunity which is ours, stupidly and blindly holding to fetiches of past conditions? Or, recognizing changes from within and without, shall we do that which is necessary to give our children the same opportunity that our fathers had and that came to us?²

In other words, pruning the oratorical verbiage, the time has now come when the United States must possess a large merchant

¹ J. A. Salter, *Allied Shipping Control*, p. 7.

² *Traffic World*, December 17, 1921, p. 1207.

marine. This fallacy is heard on all sides; it was stated solemnly at least a dozen times in the recent National Merchant Marine Association convention in Washington.

Why has the time now come? Have we ceased to be a large exporter of raw materials and foodstuffs, which ordinarily are carried in the ships of the nation buying them or in tramps, and rarely in the ships of the country selling them? Is the greater part of our foreign trade, from the standpoint of volume rather than value, in highly competitive articles that are discriminated against when carried in the ships of other countries? Is the inward volume of our trade now approximately equal to the outbound volume, so that more favorable rates can be made outward and better profits obtained from the whole business? Are the profits now to be derived from shipping as attractive as those derived from our domestic industries? Of course, none of these things has happened. The volume and direction of our trade are not appreciably different from what they were in 1914. The two significant changes from the pre-war status are the greatly overbuilt capacity of some of our industries, which may provide a larger surplus of exportation—or which may give work to additional wrecking crews—and the large number of ships now belonging to this country.

The only earnest attempt I have seen to back up this assumption with facts was made by one of the numerous experts at the Shipping Board. He argued that since in 1850, 55 per cent of the value of all American exports was foodstuffs and only 33 in 1919 and 25 in 1920, it was evident that the United States had irrevocably passed from the agricultural stage to the manufacturing state—whatever that may mean. Ergo, though this conclusion is interpolated, we now need ships.¹ (Incidentally, it is strange that unless a man goes three times a week to the publicity bureau of the Shipping Board to get the press releases, nowhere can he get such complete information of the happenings in and around that organization as in the "American Shipping Notes" of the British periodical, *Fairplay*.)

¹ *Fairplay*, November 17, 1921, p. 539.

I give this expert credit for groping after the essential elements of the case. His error lies in the use of values instead of tons, the latter of course not being available for the distant past. Stated explicitly, if I do him no injustice, he meant to argue that whereas this country had formerly exported bulky food-stuffs and raw materials, it is now exporting less of these than of miscellaneous manufactured products and that a case can be made today for American ships to carry the latter.

I attempt to arrive at a slightly different conclusion in a slightly different way. The most striking point brought out by recent statistics of the volume of our trade is its one-sided nature—a fact not surprising in view of the character and extent of our natural resources, yet consistently overlooked by those who are volubly insisting on the desirability of a large American merchant marine. In the year ended June 30, 1921, imports into the United States amounted to 36,000,000 long tons, as compared with exports of 58,000,000 tons; or, if bulk oil, which moves in specialized tankers, is excluded, the comparison is 17,000,000 to 52,000,000 tons.¹

In shipping terms this disproportion means roughly that two-thirds of the cargo ships which go out loaded must return empty. Expressed in terms of ocean freight rates, this is the equivalent of saying that outbound rates must be high enough to pay for the return of the ships in ballast. Complaints are constantly made because rates from this country are much higher than to this country: when three ships are bidding for cargo enough for only one, and when vessels are faced with the necessity of buying ballast if no cargo is obtained, it is entirely logical to expect low rates on inbound traffic. This means that the low level of inward rates is an aid to foreigners in landing their goods at our docks, but makes more difficult the placing of our goods abroad.

In considering the shipping necessary for the success of our trade, it is essential to recognize that the 17,000,000 tons of oil imported and 35,000,000 tons of bulky raw materials exported

¹ *Commerce Reports*, September 26, 1921, p. 243; November 21, 1921, pp. 713-14. Figures for the ports are from these articles and the more detailed material in the Bureau of Foreign and Domestic Commerce, on which they are based.

must be considered separately.¹ As already pointed out, crude oil moves in specialized vessels which are an integral part of a very profitable business. The exports of heavy raw materials go largely in tramp ships, a type of service this country cannot logically be expected to develop. These raw materials normally move to the seaboard before being sold ultimately, so that it is difficult for the seller, even if so disposed, to divert his shipment to an American vessel. The inbound volume of cargo, excluding oil, practically balances the outbound movement, excluding coal, bulk oil, grain, cotton, and lumber. In the year ended June 30, 1921, the overseas exports of these commodities amounted to approximately 35,000,000 tons out of total exports of 58,000,000 tons, leaving about 23,000,000 tons of miscellaneous commodities which were nearly balanced by imports, exclusive of oil, or about 18,000,000 tons.

With no reference to these facts, the uncritical statement is made that the United States needs a merchant marine of 7,500,000 gross tons to carry 50 per cent of its products. A careful analysis leads me to the conclusion that all the cargo and passenger shipping we can support from the profits of their operation plus any subsidies which are likely to be granted, is the quantity of tonnage necessary to transport 50 per cent of our imports, excluding oil, and 50 per cent of our exports, excluding coal, grain, cotton, and the like; in other words, liner services for 50 per cent of our manufactured and semimanufactured products. Though why 50 per cent, one can with difficulty demonstrate. (As a matter of record it may be stated that when Mr. Edward N. Hurley was chairman of the Shipping Board, he called in one of his employees and told him to estimate the amount of tonnage this country needed. The employee asked, "To carry what percentage of our trade?" Hurley said he did not know, and countered with the question, "How much does the shipping of other countries carry?" "British shipping carries around 50 per cent," was the reply. "Let it be 50," Hurley said, and so it has been even to this day.)

¹ *Monthly Summary of Foreign Commerce of the United States*, June, 1921, Part I. Under the headings of the items named below.

On the basis of what has been outlined, it may be said—and here I generalize heavily in trying to get behind the stale arguments concerning comparative costs of operation, fixed charges, and the like—that a country which has been endowed liberally by nature with raw materials necessary to an advanced industrial development cannot maintain, except at an unusual expense, a merchant marine large enough to carry 50 per cent of its total trade. The exploitation of its natural resources will be more profitable than shipping ventures. The exportation of primary commodities will unbalance its trade, and the profitableness of trafficking in these articles, eagerly sought after by other less fortunate countries, will not make for the development of that peculiar genius of management and economy needful for the successful operation of ships on multilateral voyages. In other words, tramp ship operators will not be developed. Tramps are needed for bulky materials, and are usually operated by the country which must import heavy raw materials and foodstuffs. The reverse is that these materials are rarely carried in the ships of the country selling them. The United States is an example of a raw-material exporting country, at least three-fifths the weight of our exports belonging to this class. Spain is another case. Imports into that country in 1920 were 3,700,000 tons, as compared with exports of 8,700,000.¹ A large part of the outward movement was a raw material—ore; and Spain has little shipping. Argentina and the other South American countries are also cases in point.

Countries poor in natural resources are forced into lines of activity which do not pay so well as exploiting the gifts of nature; in the main, international trade and services. Of these activities, the shipping industry is inevitably one of the most important. The return from the shipping of countries poor in raw materials but advanced industrially is generally equal to that obtained from other ventures. It is necessary for such countries to bring in bulky raw materials which pay something toward the expenses of a ship's operation, and which consequently enable lower outward rates to be made on its finished products and a better profit

¹ *Commerce Reports*, December 5, 1921, p. 849.

to be made from the transaction as a whole. The United Kingdom, quite apart from its geographic location, is an example. Exports from the United Kingdom in 1913 amounted to 106,400,000 tons, of which 76,000,000 tons were coal. Imports totaled 55,400,000 tons. If the continental coal trade is excluded, and it should be because it is little more than a coastwise movement, the overseas movement was 57,300,000 tons outward and 55,400,000 tons inward.¹

While the rapid growth of the Japanese merchant marine has been due to many factors, one of which was heavy subsidies, geographic and economic conditions favor an expansion of Japanese shipping; a strategic position with reference to Asia and a crowded population forced either into industrial activity for which bulky materials must be imported or into wholesale emigration. The volume of Japanese imports in 1913 almost balanced with the volume of exports. On the basis of the more important items, imports were 5,300,000 tons as compared with exports of 4,600,000 tons. It seems necessary for a country which must depend upon the importation of essential commodities to maintain a large merchant fleet. A country which possesses abundant natural resources has not the same need; other countries will come to its doors to buy.

As to the question of a balanced fleet, Dr. Emory R. Johnson, in a speech before the American Society of Civil Engineers,² gravely argued that we need more (a) passenger and mail vessels of 15,000 gross tons and up, with speeds of 18 knots and over, (b) passenger and cargo vessels of 10,000 to 15,000 tons gross, with speeds of 14 to 16 knots, (c) fast cargo vessels of 9,000 dwt. and up, with speeds of 12 knots and over, (d) refrigerator vessels of 8,000 to 12,000 tons gross, with speeds of 14 to 16 knots, (e) vessels propelled by Diesel engines or by Diesel electric drive. Why? Because we have not so many of these types in comparison with the British!

The question of a "well-balanced merchant marine" is a catchy phrase now taken quite seriously by the Shipping Board.

¹ *Supreme Economic Council Monthly Bulletin of Statistics*, Vol. II, No. 3, p. 29, and *Trade and Navigation of the United Kingdom*, I (1913), 319.

² *Marine Journal*, February 11, 1922, pp. 17-18.

In the report of the Shipping Board's committee of "best minds" on the ideal constitution of our fleet, it was stated that the British merchant marine was taken as the criterion. To argue that because the British have a certain percentage of a particular type of vessel, the United States should have a similar percentage, is as logical as arguing that since the South Sea Island made-moiselle wears two-pound rings in her ears, the flapper on Fifth Avenue should do the same. The rational way of determining the ideal constitution of a merchant fleet of a country is to study the character, extent, and direction of its trade and to estimate the kind and quantity of ship tonnage necessary to meet its requirements. Even here one is forced to admit that the shipping of a country is not developed according to ideal specifications, or rather has not been.

In the British merchant fleet are many small colliers, a special type evolved for the nearby continental coal trade, a type which this country does not need for its foreign trade. Similarly, many colliers have been designed and built for the ore trade from Spain, North Africa, and the Mediterranean islands to England. It is difficult to see, on the basis of available facts, why this country needs many ships of this kind, though, as is generally known, the Bethlehem Steel Company is building a few special ships for the importation of its ore and will doubtless build more when it has more ore to import.

Since the United Kingdom must import large quantities of frozen and chilled meats, there have been constructed a number of refrigerator ships to trade with South America and Australasia. When the learned committee and Dr. Johnson claim that this country needs a large number of refrigerator ships because we have not so many in proportion as the British, they talk nonsense. We have developed a fleet of refrigerator ships to bring bananas to this country; we may need a few more within a few years to carry citrus fruits abroad, a few might today be profitably employed in transporting fruit from South Africa and the west coast of South America to this market in the off season, and a few doubtless will be remuneratively used in carrying Pacific coast fruit through the Canal to Europe. These will be built in response to a demand, not previous to the demand to fill out a

paper plan. When the tale is counted, I believe, in the absence of proof to the contrary, that this country does not need the same percentage of refrigerator ships in its merchant fleet as the British.

When the economic factors of the situation demanded it, the United States built a large fleet of tankers. Today our vessels of this type outnumber those under the British flag. The increasing inability of the domestic production of crude oil to meet the domestic demand makes this country dependent on overseas sources of supply and we build tankers, exactly as the British depending on overseas sources of supply for meat built refrigerator ships. The British have not built tankers as rapidly as we have because their need for crude oil has not grown as rapidly as our own.

When the question of combined passenger and cargo ships is discussed, the issue is not so clear. However, it is evident that the quantity of ships of this character needed for our merchant fleet should be determined by the economic requirements of the case rather than by an argument in analogy with the British fleet. Before it can be confidently stated that our fleet is badly balanced, or that we need more passenger and refrigerator ships, a careful study of the trade facts is absolutely essential. Such a study I have yet to see, though I have seen many beautiful tables analyzing the British merchant fleet.

In an address delivered before the Cincinnati Chamber of Commerce on February 17, Senator Ransdell, the organizer of the National Merchant Marine Association, and a persistent speaker on shipping matters, stated, "American ships are your delivery wagons," a statement elaborated in this wise: A department store does not allow its goods to be delivered by a rival, and *pari passu* we should not let our foreign trade be carried in the ships of competing nations.

There is a grain of truth in this delivery-wagon figure; and a great many untrue implications. As a matter of fact, the reverse can be plausibly argued. If one forgets for a moment that shipping as a common carrier is not much over a hundred years old, a fact that is ordinarily forgotten, he can point out that when

countries have needed certain articles they have built ships and gone after them. The Greeks sought the Golden Fleece, the wheat and wool of Russia. The Phoenician and Roman ships went to England for tin; perhaps they took purple dyes and other ephemera to use in exchange but they sent ships after what they lacked. The Venetian galleys went after the rich products of the East because Venice and the hinterland wanted them. And so with the ships of the Hanseatic League, of Holland, etc. The modern British ships go to Australia, to Argentina, and to America to get what Great Britain needs: grain, meat, raw materials. That these ships go outbound laden with British products is true, but the exports are subsidiary to the imports and dependent on them. In other words, as pointed out above, the country that lacks foodstuffs and bulky raw materials in general builds ships and goes after them. It might be argued with some conviction that, historically, shipping has developed as an aid to a country's import trade. Certainly the view that a merchant marine is indispensable to export trade is not much more than a century old. It appeared after the results of the Industrial Revolution began to make it necessary for manufactured and semimanufactured goods to be marketed abroad. The only large exceptions I think of are, first, British coal, and second, Norway and Greece with their hundreds of ships engaged in trade between foreign countries. It might be argued here that the outward carriage of coal has merely made British shipping more profitable and that, in the absence of coal, British ships would nevertheless have been built and sent out for food and raw materials. I realize that this is skating on thin ice. I do not intend to be conclusive, but suggestive to those who have a better equipment and opportunity to pursue the matter.

I believe that the delivery-wagon argument is applicable to some extent to certain liner services necessary to carry our manufactured and semimanufactured articles, which meet severe competition abroad and which may be seriously discriminated against if carried in foreign ships, though I am perhaps wrong here.

When Dr. Johnson, with this delivery-wagon argument in his mind, says that "the country having the largest merchant

marine has an advantage in international trade,"¹ I am skeptical. His statement assumes a degree of correlation between trade and shipping measured in some common unit. As a matter of fact, on the only basis I know for such a comparison, the facts do not bear him out. Norway, which before the war stood first in tons of shipping per capita, was seventh in trade per capita and Holland which was first in trade per capita was fourth in shipping per capita.² I point out these facts for what they are worth. This unsupported dictum is not conclusive to me. There are many other factors that must be considered.

In the light of what has been said, only a brief reference to the fourth fallacy is necessary. It is argued that since Japan subsidized tramp shipping and succeeded measurably, we should adopt a similar policy. This statement sounds plausible, but flies in the face of logic. Japan needed tramp shipping. Dependent on overseas sources for raw materials and supplies, Japan found it necessary to encourage the kind of shipping which would insure a continuous flow of these articles. If its policy of subsidization was successful, it was because of an underlying economic need. Government aid merely hastened the development. It cannot be demonstrated, or at least it has not been demonstrated to my knowledge, that this country needs tramp shipping, and any argument in analogy with Japan on this point leaves me strangely unmoved.

That the lay economics on any subject will ever be logical and sound is extremely doubtful. A line of reasoning such as the foregoing, in which an attempt is made to get at the trade facts in the case, is popularly refuted by one or two sure-fire rejoinders. The proponent of ideas of this variety is either spreading insidious propaganda in the pay of British shipping interests, or is hired by the railroads, those iniquitous corporations which for decades have throttled our shipping. Being guilty of neither indictment, nevertheless I am shent in advance.

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¹ *Marine Journal*, February 11, 1922, p. 17.

² "Ocean Shipping," *H. R. Document No. 2112*, p. 9.